

# ANALYSIS OF ORIGINAL BILL

## Franchise Tax Board

Author: Tran Analyst: Jennifer Bettencourt Bill Number: AB 495  
Related Bills: See Legislative History Telephone: 845-5163 Introduced Date: February 20, 2007  
Attorney: Douglas Powers Sponsor: \_\_\_\_\_

**SUBJECT:** Renter Credit/Homeowners' Property Tax Exemption/Increase Credit & Exemption Amounts For Seniors Beginning On Or After January 1, 2008

### SUMMARY

This bill would increase the amounts for both the homeowners' property tax exemption and the renters' credit for individuals 62 years or older.

### PURPOSE OF THE BILL

According to the author's staff, the purpose of this bill is to reduce the property tax burden for seniors 62 years of age and older.

### EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and with respect to the renters' credit, specifically operative for taxable years beginning on or after January 1, 2008.

### POSITION

Pending.

### ANALYSIS

#### STATE LAW

Current state law requires a taxpayer who owns real estate not used for business to be assessed a tax on that property at a specified percentage. The county where the property is located generally assesses this tax. For individuals who file a claim for the homeowners' exemption, the first \$7,000 of the full value of the taxpayer's dwelling is exempt from property tax.

Current state law allows an individual who fails to claim the exemption timely to file an affidavit with the assessor for an exemption equal to the lesser of \$5,600 or 80% of the full value of the dwelling.

#### Board Position:

\_\_\_\_\_ S \_\_\_\_\_ NA \_\_\_\_\_ NP  
\_\_\_\_\_ SA \_\_\_\_\_ O \_\_\_\_\_ NAR  
\_\_\_\_\_ N \_\_\_\_\_ OUA \_\_\_\_\_ X PENDING

#### Department Director

#### Date

Selvi Stanislaus

3/20/07

In addition, current state law allows a nonrefundable income tax credit for qualified renters in the following amounts:

- \$60 for other individuals for example, single and married filing separate, with an adjusted gross income (AGI) of \$32,272 or less, and
- \$120 for a married couple<sup>1</sup> filing a joint return, head of household, or surviving spouse with an AGI of \$64,544 or less.

Current state law requires the amount of AGI to be adjusted annually for inflation.

The California Constitution requires the Legislature to provide increases in benefits to qualified renters that are comparable to the average increase in benefits provided under the homeowner's property tax exemption.

### THIS BILL

This bill would increase the amount of the homeowner's property tax exemption from \$7,000 of the full value of the dwelling to \$25,000 for individuals who are 62 years or older beginning with the lien date for the 2008/2009 fiscal year. All other homeowners would continue to receive a property tax exemption of \$7,000.

Beginning with the lien date for the 2009/2010 fiscal year and each fiscal year thereafter, this bill would require the exemption amount to be adjusted by the percentage change (and rounded to the nearest one-thousandth of 1%) from October of the prior fiscal year to October of the current fiscal year in the California Consumer Price Index for all items.

This bill would increase the nonrefundable income tax credit for qualified renters age 62 and older in the following amounts:

- \$180 for a taxpayer filing single or married filing separate with an AGI of \$32,272 or less, and
- \$360 for a taxpayer filing married filing joint, head of household, or surviving spouse with an AGI of \$64,544 or less.

### IMPLEMENTATION CONSIDERATIONS

This bill would provide an increased amount of renter's credit to taxpayers 62 years or older. It is unclear in the case of couples who file joint returns whether one or both of the individuals must be 62 years or older. The author may wish to amend the bill to clarify who must meet the age requirement in that instance.

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<sup>1</sup> California enacted SB 1827 as law, beginning January 1, 2007, which requires registered domestic partners to use the same filing status as married couples; married filing joint, married filing separate, and surviving spouse.

## LEGISLATIVE HISTORY

AB 293 (Strickland, 2007/2008) would increase the homeowner's property exemption from \$7,000 to \$22,000 on the full value of a dwelling. This bill is currently in the Assembly Revenue & Taxation Committee.

AB 351 (Smyth, 2007/2008) would increase the amounts for both the homeowners' property tax exemption and the renters' credit for individuals 62 years or older. This bill is currently in the Assembly Revenue & Taxation Committee.

AB 388 (Gaines, 2007/2008) would increase the property tax exemption and renter's credit for taxpayers. This bill is currently in the Assembly Revenue & Taxation Committee.

AB 968 (Walters, 2007/2008) would increase the homeowner's property exemption for first-time homebuyers to 25% of the dwelling purchase price and adjust the renter's credit for inflation for taxable years on or after January 1, 2008. This bill is currently in the Assembly Revenue & Taxation Committee.

AB 972 (Walters, 2007/2008) would increase the amount of the homeowner's property tax exemption and require the Franchise Tax Board to annually adjust the renters' credit amount for inflation. This bill is currently in the Assembly of Revenue & Taxation

AB 62 (Strickland, 2005/2006), AB 185 (Plescia, 2005/2006), and AB 2738 (Wyland, 2005/2006) were similar to this bill. AB 62 and AB 185 failed to pass out of the Legislature by the constitutional deadline. AB 2738 failed to pass out of the Assembly Revenue and Taxation Committee.

AB 185 (Plescia, 2005/2006) would have increased the amount of the homeowner's property tax exemption from \$7,000 of the full value of the dwelling to \$15,000 for individuals 62 years or older. This bill failed to pass out of the Legislature by the constitutional deadline.

## OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws.

Research found that *Illinois, Massachusetts, Michigan, and New York* all provide a credit similar to the California renter's credit.

*Minnesota* lacks a comparable credit and *Florida* has no personal income tax.

The Franchise Tax Board does not administer property taxes and, due to the variances of other states' property tax laws, it is difficult to make a meaningful comparison with respect to the increase in the homeowners' property tax exemption amount.

## FISCAL IMPACT

This bill would not significantly impact the department's costs.

## ECONOMIC IMPACT

### Revenue Estimate

Based on data and assumptions discussed below, the PIT and Corporation Tax revenue loss from this bill:

Estimated Revenue Impact of AB 495 Effective with the Lien Date for the 2008-09 Fiscal Year Enactment Assumed After June 30, 2007 (\$ in Millions)				
	2007-08	2008-09	2009-10	2010-11
Homeowners	\$0	+\$4	+\$9	+\$7
Renters' Credit	NA	-\$3	-\$3	-\$3
Total	\$0	+\$1	+\$6	+\$4

NA is not applicable.

This estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

### Revenue Discussion:

*Renters' Credit* – The revenue impact of this provision was calculated using the department's personal income tax model. The revenue impact of this bill will be determined by increased claims due to the larger credit amount. It is projected that for the 2007 tax year there will be a total of 1 million taxpayers claiming the renter's credit as proposed by this bill. The difference between the current renter's credit and the amount proposed by this bill is \$120 for single and \$240 for married filing joint.

*Homeowners' Exemption* – The income tax impact of this provision would result in smaller property tax deductions reported by taxpayers who itemize on their personal income tax returns. This analysis assumes that the first due date after enactment of the bill would be November, 2008.

Based on current tax return data, it is estimated that 821,000 taxpayers filing personal income tax returns would itemize their home property taxes for the 2008 tax year. The Board of Equalization estimates the average property tax rate as 1.098%. Applying this tax rate to the increased exemption amount (\$25,000 - \$7,000 = \$18,000) would generate an additional property tax savings of \$198 per taxpayer (\$18,000 x 1.098%). The total income tax increase would be \$6 million (821,000 taxpayers x \$198 x the marginal tax rate).

The revenue estimates presented above were calculated by decreasing property tax deductions by \$6 million. The fiscal year estimates are based on the assumption that 55% of 2008 -09 property tax payments would be made in 2008, reducing the impact to \$4 million.

## LEGISLATIVE STAFF CONTACT

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